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C O N F I D E N T I A L MANAMA 000176

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STATE PASS USTR/NOVELLI

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SUBJECT: CONTINUING SAUDI CONCERNS ABOUT BAHRAIN FTA

REF: MANAMA 145

Classified By: Ambassador William T. Monroe. Reason: 1.4 (B)(D)

1. (C) Bahrain officials have indicated both publicly and privately to us that the crisis with Saudi Arabia over the U.S.-Bahrain Free Trade agreement has ebbed, and that it is full speed ahead on ratification and implementation. Saudi Ambassador to Bahrain Abdulla Al-Kuwaiz, in a February 6 discussion with the Ambassador, probed extensively on possibilities for delay in implementation, suggesting that -- from the Saudi point of view -- concerns remain.

2. (C) After stating flatly that Saudi lawyers have determined that the FTA violates GCC agreements, Al-Kuwaiz asked when exactly the FTA would come into effect. Once the U.S. Congress ratified it, how long before it actually was enacted? Was there a time limit by which the Bahrain parliament had to ratify? Was there a way to delay implementation for, say, one year, to give Saudi Arabia more time to deal with outstanding trade-related issues? The Ambassador, in replying, stressed the importance the USG attached to the FTA, and the significance it had for our bilateral relationship with Bahrain. He reminded Ambassador Al-Kuwaiz that both the President and Secretary had highlighted in recent remarks the importance we gave to economic and political reform in the region. He expressed the hope that Saudi Arabia, rather than focusing on its concerns with the Bahrain FTA, would concentrate on moving forward on its own trade agenda with the U.S., including the WTO.

3. (C) Comment: It is unclear whether Al-Kuwaiz's comments reflected official policy, or simple probing by a local Ambassador. Nonetheless, Washington and Riyadh may wish to reengage with the SAG to reinforce our desire that the FTA move forward expeditiously. End comment.

4. (C) On a separate Saudi-Bahrain issue, Al-Kuwaiz reviewed the history of the 50,000 b/d Saudi oil grant to Bahrain that was ended recently and continues to be a sore point for the Bahrain leadership (reftel). Al-Kuwaiz said that the grant was given on annual or biannual bases with no promise that it would continue indefinitely. He said that there was resistance to renewing the grant at a time when Bahrain has a budget surplus and Saudi Arabia suffers unemployment and other economic difficulties. Nonetheless, the SAG has advised the GOB that it will consider restoring at least some of the grant if Bahrain shows its budget numbers and demonstrates its need for the extra revenue. So far, he said, the GOB has not responded.

5. (C) Finally, Al-Kuwaiz said that he had no details on last week's two-day visit to the UAE by Bahrain's King and Prime Minister, but presumed it was related to economic assistance from the UAE. In the past, he said, this aid had been based on the special relationship between King Hamid and Shaikh Zayed, and had been channeled from palace to palace. UAE Shaikh Khalifa, as Crown Prince, had pushed for the establishment of a joint governmental committee to regularize the assistance. So far, however, no money had been passed through the joint committee mechanism. Al-Kuwaiz surmised that the King and PM traveled to Abu Dhabi to ensure that, with Shaikh Khalifa now in charge in the UAE, the aid flows continued.

MONROE